



BUDGET MONITORING REPORT

For the period from January 1 through September 30, 2013

Summary Overview

This report presents revenues and expenditures for the General Fund, General Capital Investment Program Fund, Development Services Fund and the Utilities Operating and Utilities CIP Funds.

The purpose of the report is to compare actual expenditures and revenues and year-end projections to the 2013-2014 Adopted Budget, to discuss reasons for variance and to convey the local and national economic outlook.

As of the end of September, General Fund revenue and expenditure collections are tracking very closely to the overall budget with year-end expenditures projected to be slightly below year-end revenue.

The regional and local economy appears to be outpacing the slow growth of the national economy.

U.S. Economy

The partial shutdown of the Federal Government and the mandatory furloughs of “non-essential workers” which ended on Friday, October 18th, is credited with causing a decline in indexes of consumer confidence (Washington Economic Review and Forecast Council—October 2013). Indexes of consumer confidence measure the perceptions of consumers and are an important leading indicator for overall economic health.

One of the largest threats to the economy is the uncertainty around future Federal Government budgetary struggles and debt ceiling discussions. The recovery is prolonged by uncertainty and while the Federal Government has “re-opened”, the battle is likely to recommence in January.

The revised figure for Gross Domestic Product growth for the second quarter of 2013 remains at 2.5% annually (WA ERFC). Since

Performance at a Glance

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Pg. 5	General CIP Revenue Projection vs. Expenditure Projection	+
Pg. 6	Development Services Revenue Projection vs Expenditure Projection	+
Pg. 7	Utilities Operating Funds Revenue Projection vs Expenditure Projection	+
Pg. 7	Utilities CIP Revenue Projection vs Expenditure Projection	+

Legend:

+	Positive variance or negative variance < 1%
o	Negative variance of 1-4%
-	Negative variance of > 4%

1970, the average real growth rate for GDP has been 2.8%. The average GDP real growth rate excluding recessions since 1970 is 3.6% (Puget Sound Economic Forecaster, March 2013). The national economy continues to grow, albeit slowly and faces some risks, primarily from the Federal Government.

The national unemployment rate was 7.2% in September, slightly above the Washington state unemployment rate of 7.0% (Bureau of Labor Statistics).

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Regional Economy

In October, the Puget Sound region is expected to return to the same level of payroll employment as the last peak attained in February 2008 (PSEF—September 2013). This is good news, however, Boeing, a major economic driver in the region and the number one employer has reached peak hiring. This is expected to slow the growth of the regional economy in coming years, although the local economy will likely still outpace national growth.

Retail sales, fueled primarily by construction, have picked up dramatically and growth is expected to be at the fastest rate since the late 1990s, however some of this projected growth is due to inflation (Puget Sound Economic Forecaster—September 2013). During the Great Recession, taxable construction spending, which is an important component of retail sales, declined by 43%, but has since rebounded 31%. This is a good sign, but also indicates that we are not yet fully recovered.

The Puget Sound region unemployment rate is expected to be down to 5.7% by the end of 2013.

Bellevue Economy

In addition to major construction projects such as the Bellevue Square expansion and the Bellevue Center Office building, the recent sale of several downtown parcels indicates more construction is likely to begin. The Bellevue Galleria sold for \$88 million and a parcel at Washington Square sold for \$24 million in the past couple months. In addition, there are two major projects currently under construction: Soma Tower Phase 1 and the Marriot Hotel. While this growth is good for the local economy, there is a lag between construction and the receipt of sales tax for the City of Bellevue.

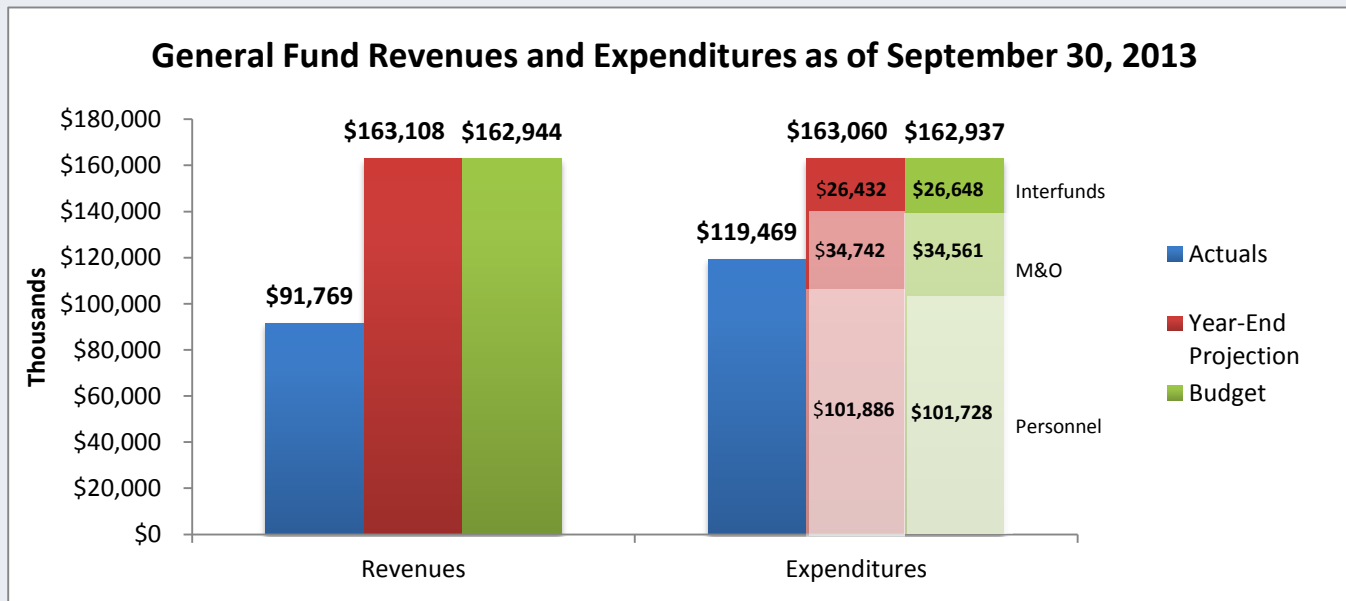
The downtown Bellevue office vacancy rate was down to 11.3% and lease rates continue to rise (Cushman and Wakefield—Q2 2013 Office Snapshot). The drop in vacancy rates and the rise in rents is likely the driving factor behind the construction of new office space downtown and the sale of large parcels.

Puget Sound Annual Percent Change			
	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>2013 Projected</u>
% Change in Employment	1.7%	2.3%	2.8%
% Change in Personal Income	5.3%	4.2%	4.2%
% Change in Housing Permits	10.5%	52.2%	31.4%
% Change in Average Home Price	(9.6)%	3.5%	11.1%
% Change in Taxable Retail Sales	2.5%	6.1%	8.7%
* Source: Puget Sound Economic Forecaster—September 2013			

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GENERAL FUND PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date revenue collections and expenditures through September, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major taxes, year-to-date revenue is less than actual third quarter activities. Expenditures are based on actual activities performed during the third quarter. Also, an accounting categorization change has resulted in the shift of some dollars from M&O to personnel since second quarter, however the total budget has not changed.

Revenue

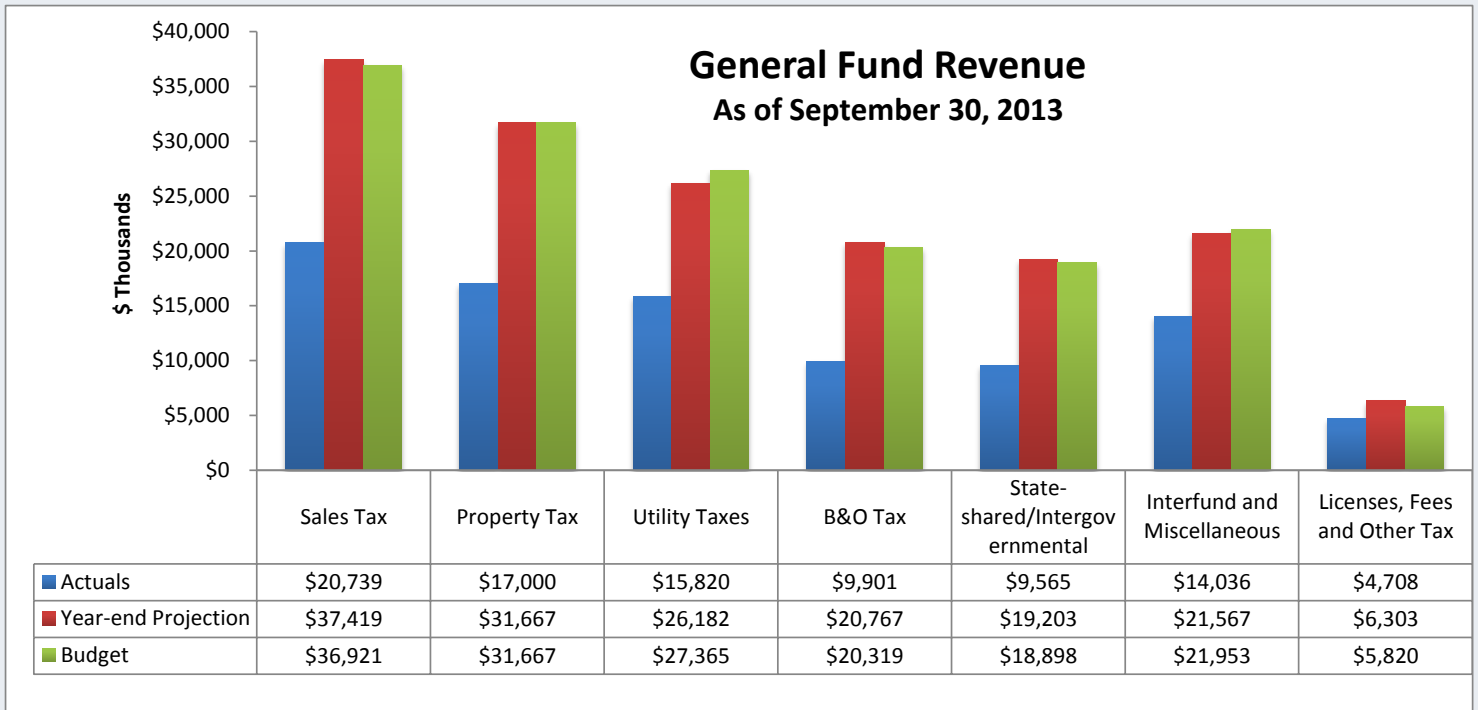
Expenditures are tracking very closely with overall revenue. Year-end expenditure projections are forecasted to come within 0.03% below estimated revenue at year-end.

Revenues are tracking slightly above budget primarily due to strong sales tax and Business & Occupation tax. However, offsetting the higher than budgeted collection of sales and B&O tax is lower than expected collection of electric utility taxes. See page four for a detailed analysis of major revenue streams.

Expenditures

Expenditure projections are tracking closely to budget. The slight overages projected in personnel are due to one time retirement and transition costs. The interfund savings projected are due primarily to the reorganization of the streets function into the General Fund. Since reserves (not shown above) are appropriated, there is sufficient authority to cover the slightly over-expenditure projected.

GENERAL FUND PERFORMANCE



NOTE: The above graph shows actual collections through September, year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual third quarter activities and year-end projections are based on the limited information available to date.

Tax Revenues

Sales Tax and B&O Tax:

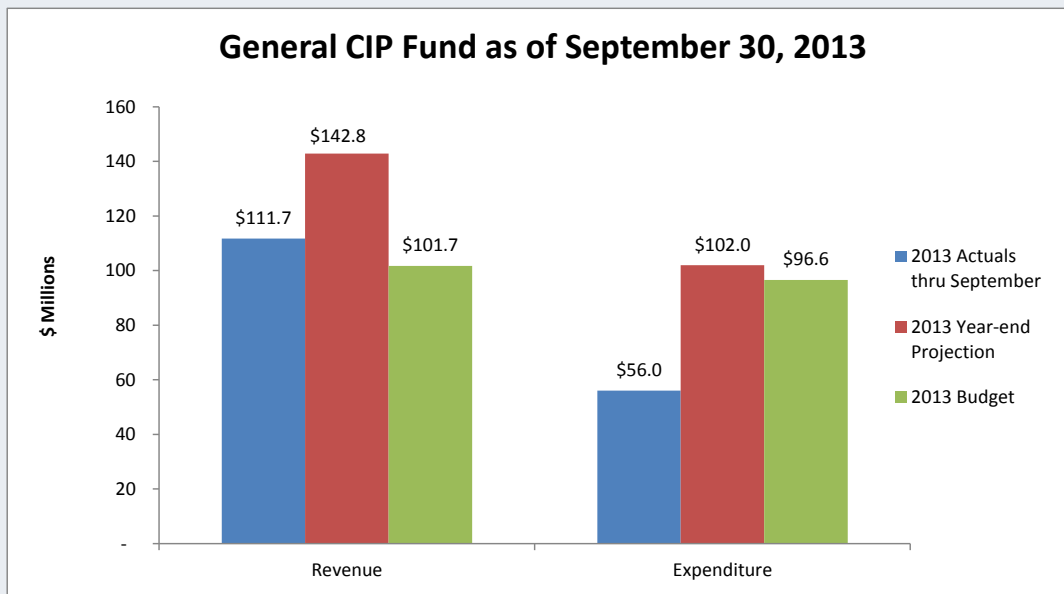
Year to date sales tax is within 1% of forecast and the year-end projection is about 1% over the 2013 budget. However, month to month collections have been highly volatile: the first three months were stronger than expected and the last two months were weaker than expected. The volatility in the sales tax trend has continued with higher than forecast sales tax collections in August. Sectors that have been leading the year have been construction, which is up 24% to date, professional services which is up 24% and auto sales and parts which is up 8% year to date.

Business and Occupation tax is highly correlated to sales tax and is also expected to be slightly above-budget.

Utility Taxes:

Utility taxes have been trending down since the beginning of 2012. While City of Bellevue Water, Sewer and Storm Water utility taxes are on budget, the non-City utility taxes performing under-budget. Non-City Utility tax collection decreases are due to conservation efforts, including energy efficient appliances and heating systems and weather patterns which have all reduced overall demand. Telephone and cell phone utility taxes are trending down due to fewer land lines and wireless carriers changing their fee structure to more data plans, which are not taxed, and fewer voice plans, which are taxed.

GENERAL CIP PERFORMANCE



NOTE: The above graph illustrates the difference between year-to-date resource collections and expenditures through September, current year-end estimates, and adopted budget. Due to the time lag between earning and receiving some major tax collections, year-to-date actuals are less than actual third quarter activities. Expenditures are based on actual activities performed during the third quarter.

Resources

Bonds: Total revenues are projected to be \$45.5 million (45%) over budget for 2013, due to the receipt of LTGO bond proceeds in advance of budget.

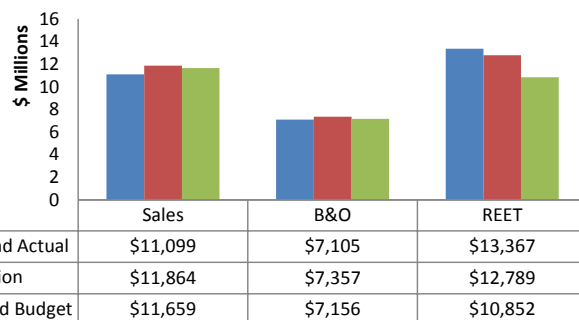
General Taxes: Sales tax and B&O tax collections are projected to slightly above budget. Real Estate Excise Tax is projected to be 18% greater than budget due to the increasing pace of high-value real estate transactions towards year-end

Other Revenues: Intergovernmental revenues (i.e., grants and contributions from other jurisdictions) are projected to be under budget by roughly \$6 million (43%), which includes the loss of the Public Works Trust Fund revenue from the State of Washington.

Cash Flow Borrowing

Current projections indicate that resources will be sufficient to support projected expenditures in 2013; however, as authorized by Council on October 7, the preliminary 2014 outlook requires up to \$30 million in short-term interfund cash flow borrowing. This borrowing will occur only on an "as needed" basis and will be repaid within three years.

CIP General Tax Collections Budget vs. Year-end



Expenditures

CIP expenditures are projected to be approximately \$102 million at year-end, or 106% of budget. This estimate is higher than the long run historical average, due primarily to the start of many large scale construction projects (e.g., Bellevue Botanical Gardens, Bellevue Youth Theatre, West Lake Sammamish Pkwy Phase 1) and the acceleration of other project expenditures.

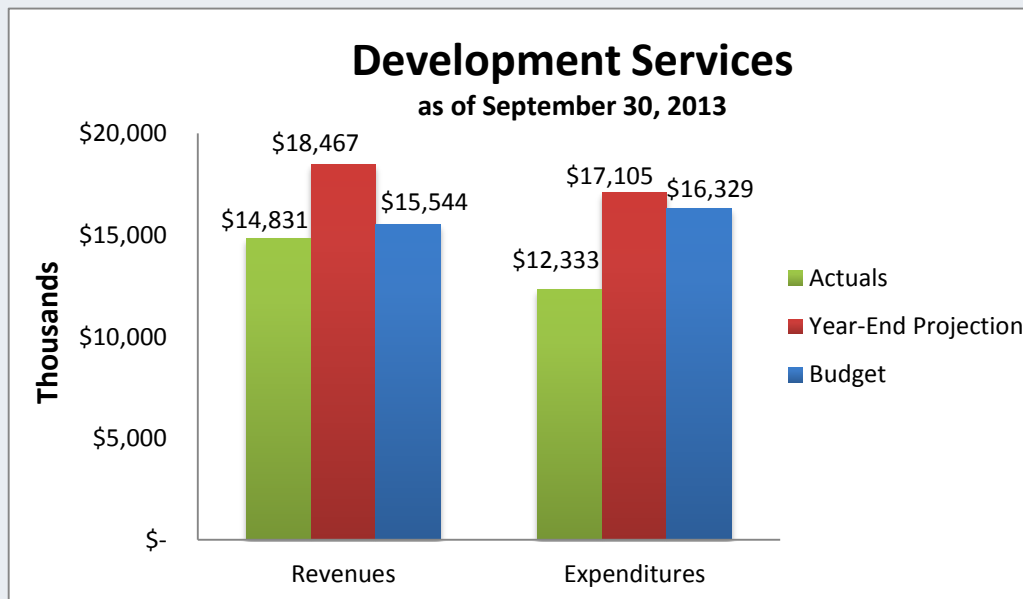
DEVELOPMENT SERVICES PERFORMANCE



Design for the Soma Towers at 200 106th Avenue NE

Development Services revenue collections are above anticipated levels in Q3, largely due to applications for major projects. Economic growth continues to improve as permit applications are increasing in valuation size and scope. Permit applications are 13% higher than this time last year and the trend is anticipated to continue

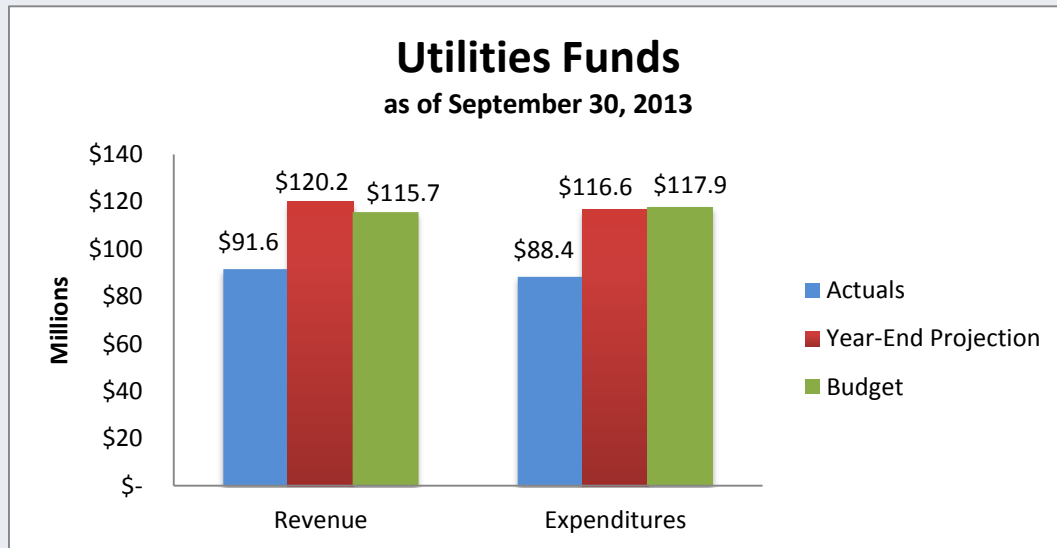
through year-end. Development Services expenditure projections reflect cost increases for additional staff necessary to meet the workload demand. Additional revenues are anticipated to cover expenditures and sufficient budget authority exists to for 2013 since fund balance is part of the appropriation.



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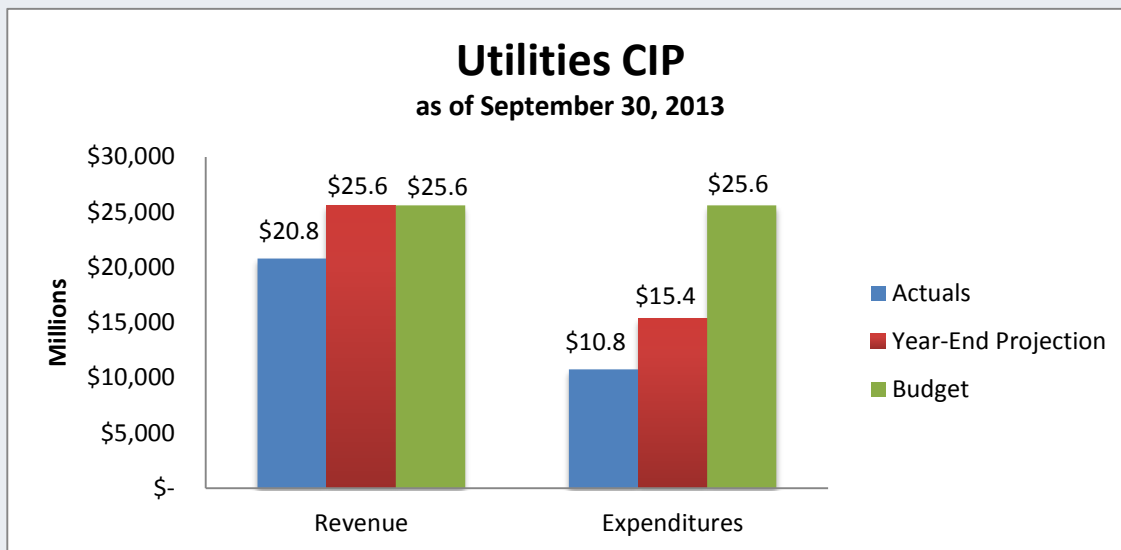
UTILITIES PERFORMANCE



Utility revenues are projected to be above budget by about \$4.5 million due primarily to water and wastewater service revenues exceeding expectations. Expenditures are expected to be under

budget by about \$1.2 million due primarily to staff vacancies and delayed capital equipment purchases which will need to be made in 2014.

UTILITIES CIP



Utility revenues are projected to be at budget by year-end (the budget above is presented net of reserves and carry-forwards). Expenditures are expected to be under budget by about \$10.2 million due primarily to delays to accommodate coordination with other projects and consolidation of projects to attract more favorable bid pricing,

but partially offset by the acceleration of other projects. The majority of the variance between projected revenue and expenditures will need to be carried forward to cover projects which have been delayed into 2014.

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